



2008 / 2009 Federal Budget

Treasurer Wayne Swan handed down his first budget reporting a budget surplus of \$21.7 billion in 2008/09 and growth is forecast at 2.75% for next year.

The Government is focussed on combating our rising inflation as the budget contains savings of \$33 billion over the next four years, including \$7 billion in 2008/09.

The Government has announced a range of measures including personal income tax cuts, a reduction in the Medicare Levy Surcharge and other tax concessions aimed at lower to middle income earners.

From a business perspective this year's budget contains a number of minor measures but the Government has announced another comprehensive review of our tax system on which it expects to receive progressive reports from July through to the end of 2009.

Personal income tax cuts

From 1 July 2008, changes to personal income tax rates (see table below) will see the 30 per cent threshold increase from \$30,001 to \$34,001, the 40 per cent threshold increase from \$75,001 to \$80,001 and the 45 per cent threshold increase from \$150,001 to \$180,001.

Employee Share Schemes

Taxpayers will continue to have the ability

to elect to be taxed at the time they are granted employee shares or rights or alternatively defer the taxing point until a later time (such as when restrictions or conditions placed on the shares or rights are lifted). From 1 July 2008, the election procedures will be changed to ensure that a taxpayer's choice of taxing point is final and income is appropriately reported in tax returns.

In addition, the Government has announced that it will provide CGT relief to the trustee (or beneficiary) of certain employee share trusts. The trustee (or beneficiary) will no longer be subject to capital gains tax when an employee becomes absolutely entitled to shares upon the exercise of rights.

Family Trust Elections

Unfortunately, the Government reaffirmed its previously stated intention to roll back a number of the 2007 amendments introduced by the Coalition Government in relation to family trust elections.

The two principal changes are:

- The definition of 'family member' insofar as it relates to lineal descendants will be limited to the children and grandchildren of the test individual or their spouse. This will have effect from 1 July

2008.

- The opportunity to make a once off variation of the test individual will be removed except in the case of a marriage breakdown. This will have effect from the 2007/08 income year.

The Government has retained, what are described as the 'technical improvements' to the family trust election system. Specific reference is made to the retention of:

- The ability to revoke family trust elections where they were not actually required. No comment has been made in relation to interposed entity elections.
- Certain persons will remain members of the test individual's 'family group' notwithstanding marriage breakdown or death.

Depreciation of computer software

The period over which in-house computer software is depreciated will increase from 2.5 years to 4 years for expenditure incurred after 13 May 2008. The straight line basis of depreciation will continue to be the only method of depreciation allowable for in-house computer software.

Current Taxable income \$	Rate (%)	From 1 July 2008 Taxable income \$	Rate (%)	From 1 July 2009 Taxable income \$	Rate (%)	From 1 July 2010 Taxable income \$	Rate (%)
0 - 6,000	0	0 - 6,000	0	0 - 6,000	0	0 - 6,000	0
6,001 - 30,000	15	6,001 - 34,000	15	6,001 - 35,000	15	6,001 - 37,000	15
30,001 - 75,000	30	34,001 - 80,000	30	35,001 - 80,000	30	37,001 - 80,000	30
75,001 - 150,000	40	80,001 - 180,000	40	80,001 - 180,000	38	80,001 - 180,000	37
150,001+	45	180,001+	45	180,001+	45	180,001+	45

Luxury car tax

The rate of luxury car tax will increase from 25 per cent to 33 per cent from 1 July 2008. The rate increase will mean that a car with a GST-inclusive price of \$100,000 will be subject to an additional \$2,541 in luxury car tax.

Fringe Benefits Tax

The Government has announced measures aimed at restricting concessions under the Fringe Benefits Tax ('FBT') regime, including:

- Tightening the exemption for certain work-related items such as laptop computers and personal digital assistants. For items purchased after 7.30 pm on 13 May 2008, the exemption will only apply if the item is used primarily for work purposes. The ability for employees to claim depreciation on such FBT exempt items will be removed.
- Restricting the ability to gain concessions under salary sacrifice arrangements for assets jointly held by an employee and an associate (e.g. interest payments on a rental property). Only the employee's share of a jointly held asset will qualify for a concession. The concessions for existing arrangements will continue until 31 March 2009.

Small business CGT concessions

The Government will increase access to the small business CGT concessions for taxpayers owning a CGT asset used in a business by a related entity and for partners owning a CGT asset used in the partnership business.

Currently, the \$2 million small business entity test does not cover business structures where the CGT asset is owned by an entity but is used in a related entity which carries on the business. In addition, for partnerships, the small business entity test requires the taxpayer making a capital gain to be a partner in the partnership and for the asset to be an asset of the partnership.

This measure will allow these structures and assets to qualify for the small business

CGT concessions with effect from the 2008 income year.

This measure was previously announced by the former Coalition Government on 22 October 2007.

Low income tax offset

The low income tax offset (LITO) will increase from \$750 to \$1,200 from 1 July 2008. Those eligible for the full LITO will have an effective tax free threshold of \$14,000 in 2008-09. From 1 July 2009, the LITO will increase to \$1,350 and from 1 July 2010 to \$1,500.

Increasing Medicare Levy Surcharge Thresholds

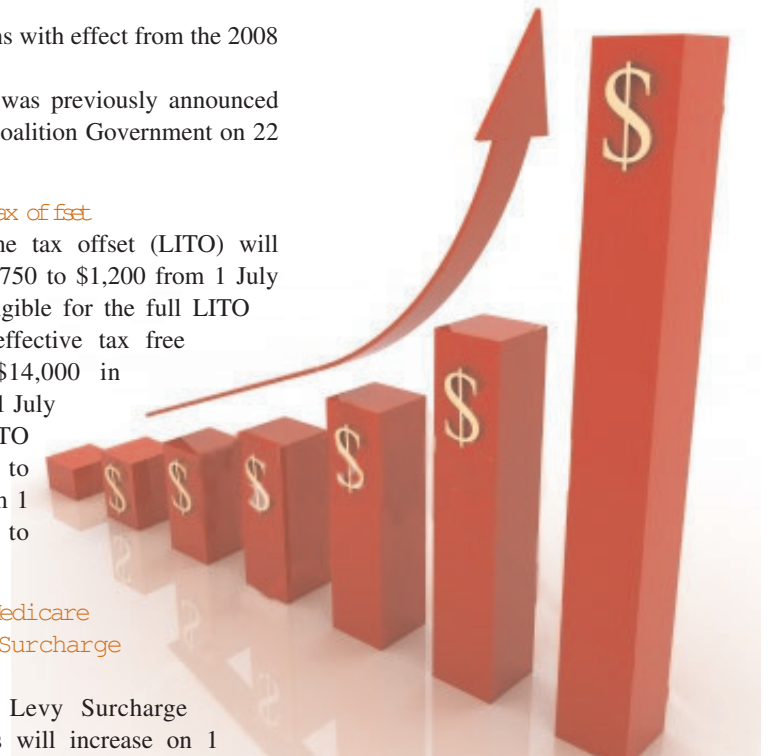
The Medicare Levy Surcharge threshold levels will increase on 1 July 2008 from \$50,000 to \$100,000 for singles and from \$100,000 to \$150,000 for families.

Cancellation of interests in widely held entities

This measure allows investors in widely held companies or trusts whose shares or units are cancelled or surrendered to calculate their capital gains or loss using the actual proceeds rather than the market value as presently required under the market value substitution rule. The measure will apply to transactions occurring in the 2006/2007 and later years.

Superannuation

The Federal Government will establish a superannuation contribution clearing house facility. As a result of Choice of Funds, many employers now regularly contribute to a myriad of superannuation funds chosen by their employees. This clearing house facility will allow employers to make one contribution payment and the clearing house will distribute the contributions to the appropriate superannuation funds. The facility will be free to employers with less



than 20 employees. Larger employers will be charged a fee to use facility.

PAYG annual instalments if voluntarily registered for GST

In the 2007-08 Budget, the previous Government announced that taxpayers who are voluntarily registered for GST will be allowed to pay their PAYG instalments on an annual basis, effective from 1 July 2008. Under the proposed amendments, the PAYG payment and reporting requirements will be aligned with the annual payment and reporting requirements for taxpayers who are voluntarily registered for GST. The other existing eligibility tests for paying annual PAYG instalments will be maintained.

This means that taxpayers who are voluntarily registered for GST - and who report and pay GST on an annual basis - will be able to meet their PAYG obligations on an annual basis, subject to the other eligibility tests.

The Government announced that this proposed measure will be deferred until 1 July 2009.